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MORTGAGES ON HOMES

A REPORT ON THE RESULTS OF THE INQUIRY
AS TO THE MORTGAGE DEBT ON HOMES
OTHER THAN FARM HOMES AT THE
FOURTEENTH CENSUS, 1920



CENSUS MONOGRAPHS

II

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NOTE BY THE DIRECTOR OF THE CENSUS.

This monograph presents the results of an inquiry as to mortgage indebtedness on homes not connected with farms. Data in regard to farm mortgages were obtained as a part of the census of agriculture, and the results are presented in the regular reports of the Fourteenth Census. The only previous census inquiry as to mortgage debt covering both farms and homes not on farms was made in connection with the census of 1890. In 1900 and 1910, however, the subject was covered to the extent of ascertaining, in connection with the classification of homes by tenure, the number of homes owned under mortgage; and in case of farms the amount of mortgage debt on owned farms was reported on the agricultural schedule in 1910, and the figures were published in the regular census reports on agriculture.

The present inquiry, which relates to mortgages on homes which are not located on farms, was conducted under the supervision of Charles S. Sloane, Geographer of the Census. The text of the report was prepared by Thomas J. Fitzgerald, special agent, who also planned and directed the preparation of the statistical tables. The manuscript was edited and revised under the supervision of Dr. Richard T. Ely, of the University of Wisconsin.

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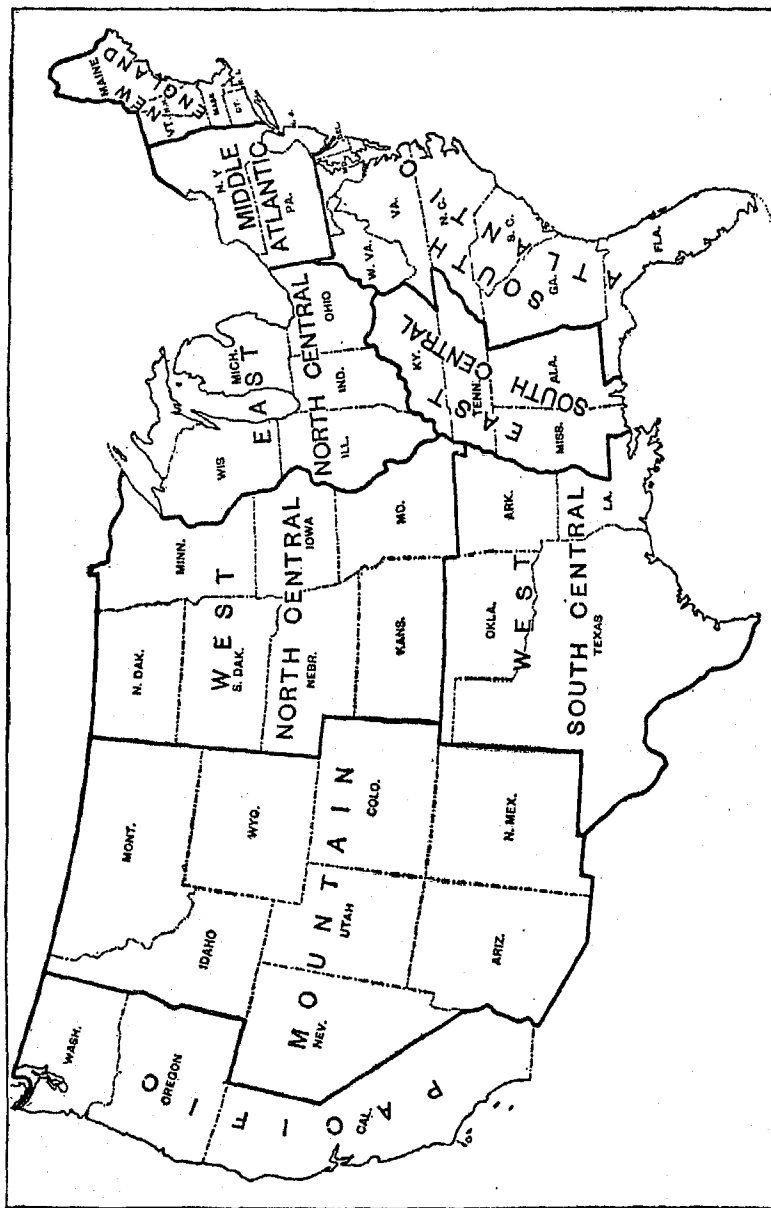
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FOREWORD.

This report on tenure and mortgage debt of homes not on farms has a profound significance in the development both of economic life and of economic thought in the United States. The field of inquiry to which it belongs is now designated by the general term "land economics." The term itself is something recent and is an indication of the increasing attention being given to landed property regarded from the economic as distinguished from the legal and technical points of view.

Agriculture has been treated more or less scientifically for years, and the law has had to deal with land as property from early times. It is only recently, however, that we are beginning to treat land in a detailed way from the point of view of economics. We are now discussing the various forms of ownership of land, the size of land holdings, and the economic relations of various persons who have to do with the land. This brings us to the subject of tenancy, indebtedness, the passage from tenancy to ownership, etc.

When we speak about land economics, however, probably three out of four will think that we refer to agricultural land, and most of the serious studies that we have had of tenure relate to land of this kind. It is only recently that we have begun to classify land carefully and to give urban land its proper place among the varieties of land. At the present time more than the majority of the people of the United States live under urban conditions, and this renders the present report especially timely. We know a good deal about agricultural tenancy and the development of tenancy and ownership and more or less about the various sorts of tenancy. We know that in some places tenancy on farms is merely a means of transfer of property from generation to generation. We also know that in some parts of the country the tenants, even if not related, generally become farm owners, tenancy being a means of ascending the agricultural ladder. Very little, however, is known about urban tenancy and the mortgage debts on urban real estate.

It is well that increasing attention is being given to statistical analysis. We must know the facts before we draw conclusions from the facts. Statistical compilations, however, do not

bring before us all of the facts, and we have to know a great many things in addition to having statistical tables before we can interpret statistical tables themselves. These general propositions are familiar to all who have given any serious attention to statistical data.

Accepting the statistics here given as accurate, the material is very easily subject to misinterpretation. Precisely identical statistics could be the result of very different causes and very different conditions.

What does a mortgage on the home signify? What does it mean that the number of mortgages on homes is increasing absolutely and relatively? Does it mean growing wealth or growing poverty? Does it signify general prosperity or the concentration of wealth in a few hands? At one time it may mean the one thing and at another time something quite different. A few illustrations will help us to understand the complexity of the problems involved.

Take the case of a city growing with a fair degree of rapidity in which wealth is increasing rapidly and in which as men become older they become usually more prosperous. Suppose further that there is a strong desire for ownership, such as is found very generally in the more prosperous parts of the country and certainly in all cities except the largest, about which there may be more or less doubt. Under these circumstances the number of mortgaged homes would increase relatively and absolutely. The American method of acquiring a home is to buy the site, gradually pay for it, then to mortgage it through a building or loan association or otherwise, to construct the home with the aid of the mortgage and gradually to extinguish the mortgage. We have no statistics to give us accurate information about the number who acquire homes in this way, but it is a familiar observation that this may be described as the American method. The present writer, who has made careful observations for a good many years, would say that in a city of 30,000 or 40,000 inhabitants in the Mississippi Valley this might represent the method in nine-tenths of the cases where home ownership is attained.

Under the above hypothesis there would be an increasing number of mortgages because the increased population comes very largely from the younger age groups, and consequently the number acquiring mortgaged homes would exceed the number paying off the mortgages.

Take another hypothesis. Suppose that it becomes increasingly easy to secure credit in the form of mortgages for the construction of a home. A condition of prosperity would then mean increasing funds which could be used for the construction of homes and an increasing proportion of the value of the homes represented by mortgages. Probably it will not be disputed by anyone familiar with real estate operations that an increasingly small proportion of the value of homes must be provided as an initial payment by the home owner. It is not only that we have increasing activities of building and loan associations, but private companies are willing to erect and sell homes for a smaller proportion of the purchase price as an initial payment.

On the other hand, it can well happen that in time of depression and unemployment mortgage indebtedness on homes not on farms could increase as a means of carrying the owners over bad times, and in many cases a foreclosure would take place representing loss and very conceivably representing to that extent a tendency in the direction of concentration of wealth.

We have no recent statistics to indicate the cases in which the mortgage indebtedness represents prosperity and in those in which it represents a decline in prosperity or even failure.

It is not an easy problem to point out all the methods which should be used to give us a correct interpretation of the mortgage indebtedness on homes not on farms. One or two lines of research, however, suggest themselves as a result of the study of the data of the present report and reflection upon the interpretation of data of the kind here gathered together by the Census Bureau.

A foreclosure generally means failure and is an indication of a lack of prosperity on the part of the mortgagor. It is not extremely difficult to gather the statistics of foreclosures and to correlate them with the number of mortgaged homes. This could be done at small expense in typical cities, and it would not be extremely expensive to gather them in all parts of the country wherever careful records of foreclosures are kept. Correlation of statistics of foreclosures and mortgages over a series of years would give us some little light upon the significance of mortgages.

The statistics of farm ownership and farm tenancy have been compiled with reference to age groups, and these compilations

have been illuminating in regard to the trend of ownership and tenancy. If we could have the statistics of mortgage indebtedness on homes compiled so as to show the age of the debtors, it would throw some light upon prosperity and its diffusion. If it is too expensive to compile statistics for the whole country dividing the mortgagors into classes with respect to their age, it can be done for certain selected cities which are regarded as typical.

Here again, however, familiarity with conditions in American cities suggests caution. Normally and regularly in most parts of the country the owner of a home expects to pay off the mortgage and rejoices when he has a home free of debt. But this desire to own a home free from debt does not prevail equally in all parts of the country. Those familiar with conditions in New York City and its suburbs are aware that many mortgagors are quite content to let their mortgages remain permanently, and that the owners of these mortgages very frequently do not expect them to be paid. The ownership of the equity is satisfactory in these cases, the owners of the homes either lacking ambition to pay off the mortgage or preferring to use the money with which the mortgage might be paid off for other purposes. There is some evidence that this feeling and corresponding practice prevails to an increasing extent. We can not, however, measure the facts just mentioned until we have further data. Probably these would have to be gathered by very detailed typical studies in different parts of the country.

It is frequently said that people are mortgaging their homes to buy automobiles. How generally this is the case no one knows, nor can anyone now say to what extent finally the automobile and the home will both be paid for. In some cases the money obtained on the mortgage and used for the purchase of an automobile and other articles of enjoyment may be a wise and in other cases a foolish expenditure. We have no data upon this subject.

The percentage of homes owned is always a function of the industrial system and the totality of economic conditions which prevail at any time. Increase in misery or poverty is only one of the many causes which might operate to increase or decrease indebtedness. Even an increase in home ownership is a cause for increased indebtedness, for very few people are able to pay the entire cost of a home upon its acquisition, so recency of home ownership is a matter upon which we should have informa-

tion. The cost of the average home, the nature of individuals' employment, and the permanency or lack of permanency of the same are important considerations.

There is need for a study of related facts such as building costs and mortgage foreclosures. A study of the experience of building and loan associations, banks and trust companies, real estate, mortgage and bond houses would also be very valuable. In interpreting the bare statistical facts with respect to the increase or decrease in home ownership and indebtedness it would be very much worth while to know what class of people own their homes and what class of people mortgage their homes. Many people use a home as a basis of credit for securing capital for the conduct of their business. Before we can judge as to the meaning of the statistics which have been gathered, we ought to know how long it takes to pay off a mortgage on the home; we ought to know the age of the mortgagor. An intensive study of selected communities should be made in order to test the accuracy of the statistics and discover the possible relationship between these many factors which may well be the more important causes for the conditions as set forth by the facts gathered together in this report.

RICHARD T. ELY.